

VZCZCXRO2093  
PP RUEHDBU RUEHHM  
DE RUEHMO #1112/01 1191402  
ZNY CCCCC ZZH  
P 291402Z APR 09  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC PRIORITY 3097  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHXI/LABOR COLLECTIVE PRIORITY  
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 001112

SIPDIS

STATE FOR EUR/RUS, DRL  
NSC FOR ELLISON  
DOL FOR BRUMFIELD

E.O. 12958: DECL: 04/29/2019  
TAGS: [ELAB](#) [ECON](#) [EIND](#) [PGOV](#) [SOCI](#) [RS](#)  
SUBJECT: RUSSIAN JOBLESS RATE CLIMBS AS ECONOMY CONTRACTS

REF: MOSCOW592

Classified By: EconMinCouns Eric T. Schultz, Reasons 1.4 (b,d)

-----  
Summary  
-----

¶1. (C) According to GOR statistics released this week, actual unemployment surged to 7.5 million workers, or approximately 10% of the workforce, in March 2009. 3.5 million Russians have lost their jobs since last August. Meanwhile, the number of workers on administrative leave and partly employed has reached 1.3 million. According to a Levada Center public opinion poll, unemployment is becoming the number one concern for the populace. The GOR maintains that unemployment will continue to grow at a much slower pace for the remainder of the year and that government support programs will bring some relief. Nevertheless, as major Russian companies continue cutting their staffs, it is probable that unemployment will exceed the GOR's projections of 10.4-10.7 percent by year's end. The combination of rising unemployment and contracting GDP is likely to lead to a higher government budget deficit, and there are indications that the GOR is preparing to start borrowing both domestically and internationally to help cover the deficit. End summary.

-----  
Sharp Rise in Unemployment  
-----

¶2. (SBU) According to reports released this week by the Russian Statistical Agency (Rosstat), Russian households continue to suffer from rising unemployment, falling incomes, and swelling wage arrears. In March 2009, actual unemployment in Russia shot up to 7.5 million workers, or almost 10% of the economically active population. The GOR estimates that altogether 3.5 million Russians have lost their jobs since last August. Public reaction to the figures has been such that at a press conference on April 23, Alexander Sokolin, Rosstat Director, announced that Rosstat would no longer release unemployment statistics every month but instead only quarterly through the end of 2009.

¶3. (SBU) Earlier in the year, the Ministry of Economic Development had predicted a 2009 average unemployment rate of 8.2%, but it has now revised its forecast from 8.2% to 10.4-10.7%. In addition to the spike in unemployment, Rosstat reported the average real income of the Russian worker fell 2.3% during the first quarter of 2009. Wage arrears also shot up 8.3% to 8.7 billion rubles from March 1 to April 1. The number of individuals on administrative leave and partially employed reached 1.3 million this month.

14. (SBU) Some experts have attributed the first quarter surge in unemployment to traditional seasonal factors, but many nonetheless expect a further spike. In an interview with "Vedomosti," Andrei Korovkin of the Institute of National Economic Forecasting at the Russian Academy of Sciences noted unemployment traditionally peaked each year in March and began to recede in May, owing in part to seasonal demand for labor in the agricultural sector. Dmitriy Abzalov, from the Center of Political Affairs, explained in an internet interview that employers delayed decisions regarding layoffs until after the conclusion of contracts and orders for the new quarter, when they knew how many workers they would need.

These delays caused the noteworthy jump in actual unemployment towards the end of the first quarter. However, Abzalov also noted that the next round of quarterly contracts and the start of the summer "dead season" for demand could cause another wave of unemployment in May.

15. (SBU) Independent analysts have also questioned the accuracy of Rosstat's estimates and have criticized its decision not to disclose monthly data. Center for Macroeconomics Analysis and Short-Term Forecasting expert Igor Polyakov contended in a "Kommersant" interview that the substantial March unemployment surge was in fact due to Rosstat's under measurement of unemployment earlier in the year. Nikolai Volgin, President of the National Assembly of Specialists in the Field of Labor and Social Policy, told the paper the decreased frequency of Rosstat data would impede the accurate assessment of labor market trends.

-----  
Government Claims Unemployment is Leveling...

MOSCOW 00001112 002.2 OF 003

-----  
16. (SBU) At an April 21 cabinet meeting, PM Putin announced that the unemployment situation was improving - albeit slowly, and Health and Social Development Minister Tatyana Golikova declared that sharp surges in unemployment were not expected in the near future.

17. (C) During a recent meeting with us at the Ministry of Public Health and Social Development (MHD), Irina Grivina, Deputy Head of the Employment and Labor Migration Department, and Olga Telegina, Head of the Office of Employment Program Planning, acknowledged the seriousness of the current labor market situation but expressed confidence in the GOR's ability to prevent unemployment from exceeding 10% in 2009. Grivina and Telegina told us the MDH had concluded agreements to fund employment programs with all 83 regions of the Russian Federation (reftel), more than half of which had already started to implement their programs. They also highlighted the GOR's decision earlier this year to expand annual funding for regional employment centers by 33.9 billion rubles in order to cover the 2009 increase in unemployment benefits, new staff, and professional training as well as other employment assistance.

-----  
...But Companies Continue to Lay Off  
-----

18. (SBU) In spite of the GOR's guardedly optimistic predictions, the continuing contraction of Russia's industrial production and consumer spending do not augur well for a significant improvement in the unemployment rate. Industrial output remains at 13.7% below the March 2008 level. Consumer spending also continues to decline. According to Rosstat, retail trade circulation fell 4% y-o-y in March, the second month of negative growth following years of increases in retail sales. CitiGroup recently reported that Russian consumers used up a large share of their savings during the previous two quarters and were reluctant to erode them further. Its analysts expect a sharper contraction of consumer spending in the second quarter of 2009 compared with

the first, which would likely lead to still more layoffs.

¶9. (SBU) By the GOR's own estimates, a third of Russian companies intend to continue cutting staff, with most of the reductions in the metallurgy and automobile manufacturing sectors. The GAZ automobile producer fired 7,500 people in the first quarter of this year as car sales dropped by 40 percent. Severstal, the country's largest steel producer, plans to cut 9,500 jobs, and the state-owned Russian railways recently announced its plans to lay off 54,000 workers.

-----  
Not So Quiescent Public  
-----

¶10. (C) According to a recent Levada Center Poll, unemployment is now seen as the number one problem faced by the population (according to 49% of the respondents). This is the first time in 20 years that unemployment has been as seen as a bigger problem than inflation. On the other hand, Levada Center surveys also indicate that the Russian population is adopting a cautiously optimistic attitude toward the economy as a whole, with consumer confidence falling at a slower rate in March.

¶11. (C) Despite rising concerns about unemployment, Marina Krasilnikova, Director of Levada's "Quality of Life Research" Department, told us Russians were still largely apathetic. A March survey had shown that a third of Russians expected in social protests to occur. However, 59% placed little faith in the efficacy of such actions. Krasilnikova further discounted the possibility of widespread social unrest owing to the lack of an active and organized political opposition and the preference of Russian households for "finding their own individual solutions to financial problems."

¶12. (C) Russians were generally disinclined to participate in protests, Krasilnikova observed. A survey by the All Russia Center for the Study of Social Opinions at the end of March revealed that although a third of Russians did not exclude the possibility of social protests directed against the falling quality of life in their respective regions, 59% placed little faith in the efficacy of such actions. Krasilnikova discounted the possibility of widespread social

MOSCOW 00001112 003 OF 003

unrest owing to the lack of an active and organized political opposition and the preference of Russian households for "finding their own individual solutions to financial problems."

-----  
Comment  
-----

¶13. (C) If accurate, Rosstat's actual unemployment rate estimate for the first quarter would indicate that the labor market has declined in only three months almost as much as the GOR predicted it would for the entire year. Higher unemployment compared to earlier projections will necessitate additional budget spending for unemployment benefits and job stimulus programs. Moreover, mounting unemployment will likely force the government to allocate more of its anti-crisis support to the real sector of the economy. The mixture of increased social spending, rising unemployment, and a contracting GDP is likely to lead to a higher government budget deficit. In that regard, there are indications that the GOR is preparing to start borrowing both domestically and internationally to help cover the deficit.  
End Comment.  
BEYRLE